

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58109

LIBERTY LAKE SEWER DISTRICT NO. 1

Spokane County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: March 14, 1997

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LIBERTY LAKE SEWER DISTRICT NO. 1
Spokane County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With State
Laws And Regulations**

Chairman/Board of Commissioners
Liberty Lake Sewer District No. 1
Liberty Lake, Washington

We have audited the financial statements, as listed in the table of contents, of Liberty Lake Sewer District No. 1, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated February 13, 1997.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the district's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests indicated that, with respect to the items tested, the district complied, in all material respects, with the applicable laws and regulations referred to in the preceding paragraphs. However, we noted an instance of noncompliance of regulatory requirements immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the chairman/board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag, CGFM
State Auditor

February 13, 1997

LIBERTY LAKE SEWER DISTRICT NO. 1
Spokane County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The District Should Improve Internal Controls Over Cash Receipting

During our review of the district's cash receipting system, which collected in excess of \$400,000 during 1995, we noted the following internal control weaknesses:

- a. Permits are used as a basis for charging sewer and water connection and hookup fees. The permit document is not preprinted or prenumbered. In addition, the fees listed on the permit were changed after the permit was issued.
- b. There is no separation of duties between billing, cash receipting, posting, and reconciling.
- c. There is no management oversight of adjustments to accounts receivable.
- d. An updated policy on the amount and timing of late charges does not exist.

The Washington State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual, Volume I, Part 3, Chapter 1, page 15 states:

An internal control system consists of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in the reports.

The BARS manual states that separation of duties, supervision, and prompt recording of transactions are among internal control standards established by the U.S. General Accounting Office.

Without proper separation of duties, reconciliations, and management oversight, the district is unable to ensure that all money collected is credited to the district's accounts. Additionally, the district will not be able to detect errors and irregularities in a timely manner, if at all.

We recommend the district establish and implement policies and procedures to strengthen the cash receipting system. This should include, but is not limited to, the following:

- a. Monitor and track all revenue generating documents. These documents should be preprinted and prenumbered. We further recommend that if the fees charges are incorrect an amended permit be issued.

- b. Segregate the duties of billing, cash receipting, posting, and reconciling.
- c. Review all accounts receivable adjustments. All adjustments should be documented as to the reason for the adjustment and reviewed prior to posting.
- d. Establish and follow policies concerning the amount and timing of late charge assessments.

Auditee's Response

We are in the process of correcting these issues.

Auditor's Concluding Remarks

We appreciate the district's timely response to our audit finding. It appears that the concerns noted in this finding are being adequately addressed. We will review the district's progress during our next regularly scheduled audit.

We also wish to thank the district's officials and personnel for their assistance and cooperation during our audit.

LIBERTY LAKE SEWER DISTRICT NO. 1
Spokane County, Washington
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The finding contained in the prior audit report was resolved as follows:

1. Controls Over Local Receipts Should Be Established

Resolution: During our review, we noted that some of the internal control weaknesses continue to exist and have been included in the finding issued with this report.

LIBERTY LAKE SEWER DISTRICT NO. 1
Spokane County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Financial Statements

Chairman/Board of Commissioners
Liberty Lake Sewer District No. 1
Liberty Lake, Washington

We have audited the accompanying financial statements of Liberty Lake Sewer District No. 1, Spokane County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Liberty Lake Sewer District No. 1 at December 31, 1995 and 1994, and the results of its operations and cash flows for the fiscal years then ended, in conformity with generally accepted accounting principles.

Brian Sonntag, CGFM
State Auditor

February 13, 1997